CMC Background

California Milk Connection has its origins in 2008. 2008 marked a year of tragedy for the dairy industry. That year, average feed costs increased by 35% and energy costs increased by 30%. Meanwhile, milk prices paid to dairy farmers hit rock bottom. By 2009, the milk/feed price ratio, a measure of the profitability of producing milk, was the lowest in over 25 years. To make matters worse, the financial crisis made the credit needs of dairy producers more pressing than ever. Considering dairy farms are among the most highly leveraged in U.S. agriculture, these conditions created dire circumstances. Then, the worst drought in half a century struck the Midwest, sending corn prices soaring. Any incremental gains in milk prices were offset by the even higher feed costs.

As tragedy struck ***dairy producers*** in 2009, ***dairy processors*** continued to flourish. As hundreds of California dairies were lost to bankruptcies and foreclosures, dairy processors made record profits. After watching this tragedy unfold for 2 years, 8 second generation dairymen in the Central Valley, cousins by blood and/or marriage, began to talk about taking their destinies into their own hands. And so, at 5:00 a.m. on a weekday in June of 2011, the dairymen met at a Denny's restaurant in Turlock, California, for the first of what would be many early morning meetings to discuss the futures of their dairy operations.

For years, the early morning meetings were brainstorming sessions and, often times, a forum for the dairymen to express frustration with the conditions within their industry. The more the group met, the more questions they had. Should they try to build a new creamery or buy a used facility? How would they raise the capital? What product would the facility produce? Pharmaceutical grade baby formula? Yogurt? Cheese? Powdered milk? A combination of products?

In 2013, despite not having a formal plan in place, the group saw an opportunity to take its first step. The Nunes property on the northeast corner of South Washington and West Linwood, in Turlock, California, went up for sale. For all intents and purposes, it was an ideal location for a milk processing plant. The City of Turlock was expanding westerly, toward the Nunes property, which was already zoned for industrial use. The property was located 2 miles from Highway 99, 45 minutes from the Port of Stockton, 80 miles from the Port of Oakland, and a stone's throw from a railway to the north. Recognizing that stars do not always perfectly align, the group decided to move forward toward making their dreams a reality. In June 2013, the group got the property into contract with a very long escrow, in order to have sufficient time to assess the suitability of the property and to raise the money for the purchase price.

Over the next year, the group hired a consultant to help with planning for the processing plant. While any one of the dairymen could build a dairy from the ground up, none of them had the experience or the know-how to develop real estate into a processing plant. The dairymen agreed on their objective: to build a plant that will maximize efficiency. Essentially, this meant utilizing state of the art equipment and processes, while also ensuring the plant was the proper size to take advantage of the efficiency. Over several months, the consultant developed a business plan that, consequently, answered many of the questions that the dairymen had been asking at those early morning meetings (i.e. size, cost, products, target markets, etc.).

While the consultant worked on the business plan, the rest of the group focused on raising the money for the purchase price. They looked into conventional financing, sought out private investors, and even looked into public funding. As time ran out and the group had exhausted its extensions to the escrow, they found a friend of the family. A successful sweet potato farmer and good friend of the first generation (i.e. the group's parents), saw and admired the passion and the drive in this group of dairymen. Believing in them, he offered to put down one-half of the purchase price. With his help, it became possible for the group to receive conventional financing for the other half. With that, CMC Land Holdings, LLC was born.

CMC Land Holdings, LLC ("CMC") is made up of 8 dairymen and the sweet potato farmer. The sweet potato farmer holds a one-half interest in CMC. The 8 dairymen own the other half. Collectively, the group makes decisions on how to manage the property while the plans for the processing facility are further developed.

Escrow on the Nunes property closed on May 30, 2014. At that point in time, the consultants had not yet completed the business plan for the processing facility. The group decided that it would be prudent to rent out portions of the property while it waited for the business plan and sought out capital to build the plant. The 4 homes on the property were rented out. The dairy facility on W. Linwood (i.e. former John Nunes Dairy #2) was rented out to a local dairyman to be used as a heifer lot. And the group moved forward with the demolition of the dairy facility along S. Washington (i.e. John Nunes Dairy #1).

CMC has already encountered a number of challenges on its path to realizing its dream, not the least of which is money. From the beginning, it was understood among the group that the personal dairies took precedence over the CMC plant project such that CMC would not serve to force any one of its members into financial ruin. The "dairy recession" of 2008-2013 had already caused the dairymen in the group to leverage their operations to the max. The additional costs associated with the ownership of the new property (i.e. mortgage, property taxes, consultant fees, etc.) brought further strain in 2013. Just as it seemed that milk prices were finally rebounding in 2014 and that the tides were about to change, milk prices took yet another plunge in 2015. As a result, the group continued to move forward, but at a slow pace in 2015. Then came November.